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INFO RUCNIRA/IRAN COLLECTIVE PRIORITY
RUCNRAQ/IRAQ COLLECTIVE PRIORITY
RHEHAAA/WHITE HOUSE WASHINGTON DC PRIORITY
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 003172

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E.O. 12958: DECL: 08/28/2016
TAGS: [ECON](#) [PGOV](#) [EFIN](#) [EAID](#) [IZ](#)
SUBJECT: OBSTACLES TO IMPLEMENTING GOI PROVINCIAL
RECONSTRUCTION PROJECTS IN BAGHDAD

REF: BAGHDAD 3061

Classified By: COL Kenneth Fisher, Deputy PRT Team Leader, for reasons
1.5 (b) and (d).

11. (C) SUMMARY: Two principal obstacles have prevented GOI-funded reconstruction projects from moving forward in the province of Baghdad. First, complex project selection, bidding, and funding mechanisms have left many projects in a bureaucratic quagmire. Second, Iraqi contractors have been hesitant to bid on reconstruction projects because they perceive them to be less lucrative than USG-related contracts and because they fear being targeted by terrorist and militia groups in the Baghdad Province for working on GOI reconstruction projects. Most reconstruction projects are related directly to infrastructure needs and the return of basic municipal services, such as water and electricity distribution and trash and sewage collection. Bureaucratically, the situation is improving; however, much more remains to be done to enable the GOI's full allotment for reconstruction projects to be spent by the end of 2006. We see return of these services as integral to the success of the Baghdad Security Plan and the normalization of the city's economic situation. END SUMMARY.

Project Budgets

12. (C) With most of Baghdad operating without regular trash collection, proper water distribution, and sewage collection, expeditious implementation of Government of Iraq (GOI) funded reconstruction projects is one of the Baghdad Provincial Reconstruction Team's (PRT) highest priorities. The Ministry of Finance (MoF) budgeted USD 513 million in the capital investment budget for the Baghdad Provincial Council (PC) to complete reconstruction projects in 2006. In May 2006, the PC received ten percent of its annual capital budget from the MoF, and it recently received an additional thirty percent. According to current fiscal laws, the PC's entire budget must be spent - not simply obligated but actually dispersed -- by December 31, 2006. The PC has been hesitant to allocate its entire budget before receipt of funds from the MoF and has only recently embraced the idea of contracting and completing projects in phases.

The Bidding Process

13. (C) The PC receives scopes of work and project suggestions principally from the Amanat and, to a lesser extent, from the District Advisory Councils (DAC). It is then incumbent on the PC to approve the projects, solicit the bids, and select the contractors. Contractors are given 28 days to submit bids. Previously, if three contractors did not submit a bid, which has been a problem for the reasons listed in para 5,

the solicitation period was extended to a second, and possibly a third, period of 28 days. Recently, the Deputy Prime Minister, Ministry of Planning, and MoF agreed to reduce the extension of the second and third solicitation periods to seven days to expedite the process (reftel).

¶4. (C) A final decision on the bids is made jointly by both the PC and the Amanat. Once a contractor wins a bid, the contract is signed with the Amanat. Previously, the PC retained control of the funds, and the Amanat had to make a formal request to the PC every time a contractor needed to be paid. However, recently, the PC decided to advance funds to the Amanat to make the process more efficient.

Iraqi Contractors Lack Confidence in PC Contracts

¶5. (C) Over a series of meetings, local Iraqi contractors told PRT officers that they do not "feel comfortable" bidding on GOI reconstruction projects. According to the contractors, they believe reconstruction projects funded by the provincial government would be less lucrative than similar projects offered by USG-related entities. Since many of the larger contracts are multi-year, contractors have also expressed hesitancy about taking on projects that may not be funded after the first year. Accordingly, they concentrate their resources on bidding and managing USG contracts. In addition, they said that working on reconstruction projects in the Baghdad Province is too dangerous to be profitable. To encourage Iraqi contractors to apply for PC-solicited contractors, the Baghdad PRT plans to hold a bidders conference between the PC and available contractors.

COMMENT

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¶6. (C) The integration of the PC into the local government in Baghdad as an interface between the federal government and the Amanat has had a bumpy start. However, the bureaucracy is gradually becoming more efficient as each entity establishes its role. That said, additional improvements will be needed to ensure that the PC will be able to spend its full allotment of USD 513 million. The Baghdad PRT is working to help resolve these issues, as we see return of municipal services as an integral to the success of the Baghdad Security Plan and the normalization of the city's economic situation. END COMMENT.
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